

Date Mailed
September 1, 1998

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Petition of Customers of the Tisch Mills Exchange of Stockbridge
and Sherwood Telephone Company for Extended Community Calling
With the Denmark and Luxemburg Exchanges of GTE North
Incorporated and Several Other Exchanges

5710-TV-102

**NOTICE OF FURTHER INVESTIGATION AND
REQUEST FOR COMMENTS**

Comments Due: Friday, October 9, 1998 – Noon	Address Comments To:
FAX Due Date: Thursday, October 8, 1998 – Noon	Scot Cullen, Administrator Telecommunications Division Public Service Commission P.O. Box 7854 Madison, WI 53707-7854
Reply Comments Due: Wednesday, October 21, 1998 – Noon	Fax No. (608) 266-3957
Reply FAX Due Date: Tuesday, October 20, 1998 – Noon	

Background

On May 9, 1994, the Commission received a petition from approximately 133 customers of the Tisch Mills exchange of Stockbridge and Sherwood Telephone Company (SSTC). The petition requested Extended Community Calling (ECC) to numerous prefixes in the northeast LATA, including the exchanges of Denmark, Luxemburg, Green Bay and four others. Tisch Mills is in the southeast LATA; it has Extended Area Service (EAS) to the Kewaunee and Mishicot exchanges and ECC with Two Rivers and Whitelaw. Tisch Mills customers currently have a charge on their bills for the Kewaunee and Mishicot EAS arrangements.

Some data was collected at that time and comments filed on the issue of creating local interLATA calling from Tisch Mills; however, given that the interLATA market for long distance service was competitive and further competition offered a reasonable means of meeting customer demands, no further action was taken at that time.

On November 13, 1997 a meeting was organized by customers and held at Cooperstown, Wisconsin. Representatives of SSTC, GTE North Incorporated (which serves Denmark and Luxemburg), and the Commission were in attendance as was Representative Frank Lasee, Assemblyman from this area. The purpose of the meeting was to discuss possible means to reduce the cost of calling from Tisch Mills to Denmark.

As a result of the discussion and concerns expressed at the meeting, three options were identified to pursue this issue further: (1) the Commission would be requested to waive the traffic study requirements of the EAS rules (§ PSC 167.06, Wis. Adm. Code) so that balloting could proceed on the issue of EAS with Denmark; (2) consideration would be given to ECC between Tisch Mills and Denmark; (3) consideration would be given to optional EAS for Tisch Mills customers, with Denmark as an added option. Items 2 and 3 were identified as appropriate for consideration in the event that balloting under item 1 resulted in rejection of that option.

At its open meeting of December 16, 1997, the Commission waived the traffic study requirement for consideration of EAS. Costs were reported by SSTC, and it was determined that the rate increment for EAS with Denmark would be \$6.75 for residential service and \$11.70 for business service.

Ballots were mailed to Tisch Mills customers in April, and ballots have been counted as follows:

Yes	41
No	260
Not Valid ¹	8

The number of 'yes' votes failed to meet the criteria of § 167.08(2), Wis. Adm. Code, which requires that at least 50 percent of the customers of the exchange respond in favor of the proposed EAS. The matter of EAS with Denmark has been denied by the Commission. The Commission is now proceeding to consider the issues of establishing ECC with Denmark, or creating optional EAS arrangements for Tisch Mills.

Calling Options for Tisch Mills

The purpose of this notice is to identify possible calling plans for Tisch Mills. Potential cost and rate impacts are specified based on information previously submitted. This information is included in this notice to provide a frame of reference for consideration of the options. The Commission is making no conclusions in this notice about these services or rates. We seek input on the options and impacts of these types of calling arrangements. None of the options are without cost. It is necessary and fair that all interested persons be aware of the potential rate implications of the options being considered. These assumptions on costs, subscription levels, and rate impacts are certainly subject to comment in this investigation.

¹ Includes cards not signed or no preference indicated.

SSTC reports that its costs of establishing ECC or optional EAS would be the same as for mandatory EAS; a monthly revenue requirement of \$4,518. The loss of access revenues would be the same and the facilities required would be similar in all cases. This assumes that, under optional EAS, customers not choosing that option would not pay toll charges but would instead pay a local usage rate such as 5 cents/min to SSTC.

Option 1 - ECC

ECC is a plan adopted by the Commission in 1993 to alleviate the high cost of calling to nearby communities which had been subject to toll rates. Because it was approved in a proceeding to investigate competition in the intraLATA toll market, ECC was only authorized as an intraLATA service. Therefore, because Tisch Mills and Denmark are in different LATAs, ECC did not automatically apply to calls between these exchanges. The issues raised in the instant proceeding are like those raised in the ECC proceeding so it is appropriate to consider pricing calls between Tisch Mills and Denmark like ECC calls.

SSTC's revenues from ECC service are projected to be \$882 per month. This produces a revenue shortfall of \$3,636 per month, or an average of \$5.69 per Tisch Mills access line. Allocating a higher rate to business service classes would reduce the amount of the increase on residential service somewhat. The impact on GTE would be significantly less per customer since GTE access charges are lower than those of SSTC and there are almost five times as many lines in service in Denmark as in Tisch Mills.

Optional EAS

Optional EAS could take one of two forms; setting a price for EAS with Denmark only, or removing the mandatory charge from customers' bills for EAS with Kewaunee and Mishicot and making those EAS arrangements optional as well.

Option 2a – Optional EAS (Denmark only)

One scenario for Denmark-only optional EAS, is to assume that all customers currently placing at least 60 minutes of calling to Denmark would opt for the flat-rate EAS, and that the remaining customers would pay 5 cents per minute and would increase their calling in response to the lower rate. Usage revenues are thus projected to be \$257 per month. Dividing the remaining revenue requirement of \$4,261 among the 49 customers with current usage in excess of 60 minutes per month yields a rate of \$86.96 per month. Clearly the 49 customers will not opt for the service at this rate. If they could be induced to subscribe at a rate of \$7.50 per month, the revenue shortfall would be \$4,150.50, or an average of about \$6.50 per Tisch Mills access line, even those not subscribing to the optional service.

An assumption that customers now using at least 90 minutes would be willing to pay \$9 for unlimited usage yields a shortfall of \$6.06 per access line. There is no rate at which a reasonable assumption regarding subscribers' willingness to pay produces sufficient revenues to cover the cost of the service. Based on the EAS balloting results noted above, it seems unlikely that Tisch Mills customers would favor rate increases of this level for expanding the calling scope of some customers.

Option 2b – Optional EAS (Denmark, Kewaunee, and Mishicot)

Finally, SSTC examined the issue of making all EAS optional for Tisch Mills customers. Current rates at Tisch Mills include an EAS component identified as a separate rate in the tariff, though not an optional feature.² EAS rates are \$3.55 residential, \$3.95 business and \$7.75 for trunks. Basic local service totals at Tisch Mills are \$15.39 for residential lines, \$26.63 for business lines and \$38.58 for business trunks, including the EAS rate but excluding the federal end user charge and the 9-1-1 charge. SSTC suggests that it would recover its expenses if EAS were made optional at rates of:

	<u>Residential</u>	<u>Business</u>	<u>Trunk</u>
Kewaunee	\$10	\$11.13	\$21.83
Mishicot	5	5.56	10.92
Denmark	5	5.56	10.92

The allocation among the exchanges is based on the very high usage, per Tisch Mills customer, to Kewaunee. One could justify a different rate scheme in which the rate for calling Denmark was at least as high as the rate for calling Kewaunee based on the number of lines available to be called in each of those exchanges. Setting the Kewaunee and Denmark rates equal would produce residential rates of approximately \$9.24 if one maintains the same relationships with the business and trunk service classifications.

For residential customers with a high level of interest in calling Kewaunee, their rate would increase by \$5.69³ per month under such a plan. For customers with an interest in calling to both Kewaunee and Mishicot, the rate increase for retaining their current level of service would be \$14.24. The Commission would need to hold hearings before authorizing increases of this magnitude. Customers who do not have a regular or large volume need to call Kewaunee or Mishicot would get lower bills.

Rate Equity Considerations

Tisch Mills is one of three exchanges served by SSTC; Sherwood and Stockbridge are in the northeast LATA about 35 miles west of Tisch Mills. All three exchanges have adjacent LATA boundaries that restrict the benefits accruing from the ECC plan which is limited to intraLATA service; however, the effect on Tisch Mills is arguably the most evident. Local calling areas for the three exchanges, including access line counts, are:

² SSTC has filed a notice of proposed rate increase with the Commission to be effective October 22, 1998. The rates in this 5710-TV-102 notice are those in effect now, prior to any rate increase.

³ This is the difference between \$9.24 and the current EAS rate of \$3.55.

Sherwood

EAS		ECC	
Appleton	76,586	Little Chute	9,861
Hilbert	1,084	Neenah	39,293
Kaukauna	8,716	Wayside	1,428
Stockbridge	684	Wrightstown	<u>1,458</u>
Self	<u>1,622</u>	ECC Total	52,040
Total	88,692		

Stockbridge

EAS		ECC	
Chilton	3,413	Appleton	76,586
Sherwood	1,622	Kaukauna	8,718
Self	<u>684</u>	Little Chute	9,861
Total	5,719	Neenah	<u>39,293</u>
		ECC Total	134,458

Tisch Mills

EAS		ECC	
Kewaunee	2,891	Two Rivers	6,789
Mishicot	1,760	Whitelaw	<u>1,110</u>
Self	<u>610</u>	ECC Total	7,899
Total	5,261		

The Denmark exchange has 3,699 access lines in service. The current rate structure attempts to reflect the differences in extended area service calling area by charging Sherwood customers 17 percent (residential) to 26 percent (trunks) more than Stockbridge and Tisch Mills customers. In dollars, the difference ranges from \$3.20, residential, to \$10.05, trunks. Therefore, if the Commission were to authorize either ECC or optional EAS for Tisch Mills and allocate the revenue shortfall to the Tisch Mills exchange as discussed above, Tisch Mills customers would have the smallest local calling area but the highest rates for local service within SSTC.

Looking again at ECC between Tisch Mills and Denmark, allocation of the revenue shortfall of \$3,636 per month equally among customers in the three exchanges, with a 50 percent Premium on business lines, would increase residential rates by \$1.12 and business rates by \$1.68 per month. Maintaining current rate ratios among the exchanges yields residential rate increments of \$1.02 at Stockbridge and Tisch Mills and \$1.19 at Sherwood. Business rate increments would be \$1.53 and \$1.79, respectively. (Current residential rates are \$15.39 at Tisch Mills and Stockbridge, and are \$18.59 at Sherwood.)

Another question to consider is the nature of calling in the reverse direction. GTE has identified capital costs to implement EAS or ECC with Tisch Mills of \$183,951 plus a one-time expense of \$960. Under price cap regulation, GTE's rates are not set by the Commission.

Summary

The importance of local calling between adjacent exchanges was well documented in docket 05-TI-119. In that proceeding, the Commission recognized that even the impending competition in the intraLATA toll market would not meet legitimate customer needs as well as the new program, Extended Community Calling. Because that proceeding dealt only with the question of intraLATA toll service, ECC was created as an intraLATA plan.

Tisch Mills customers residing within the Denmark school district have a need to call the Denmark exchange comparable to that found in many ECC situations. In recent years, there has been little or no reduction in rates for short distance interLATA toll calls; the trend toward rates that are insensitive to distance has actually increased rates for these calls by many toll providers. In creating ECC and in subsequent expansions thereof, the Commission did not order rate changes for the affected telephone companies. Mechanisms are in place which allow the recovery of any costs or revenue losses by the local telephone companies.

NOTICE IS HEREBY GIVEN that the Commission will proceed with its investigation of this matter following denial of Extended Area Service consistent with the EAS rules, ch. PSC 167, Wis. Admin. Code.

NOTICE IS FURTHER GIVEN that the Commission seeks comments from interested parties. Comments should address calling needs at Tisch Mills, the options noted herein, and the issues discussed above. Data to either support or contradict the assumptions, facts, and figures set forth herein should also be submitted. Companies shall **file an original and 15 copies** of their comments; individuals need file only one original and one copy. Comments shall be filed pursuant to the schedule on page 1. Fax filing cover sheets must state "Official Filing", the file number (5710-TV-102) and the number of pages (limit 20 pages). Comments should be submitted by one mode only.

Questions on this matter may be addressed to Tom Gross at (608) 267-2337, toll-free at (800) 225-7729, or by e-mail at *grosst@psc.state.wi.us*.

Dated at Madison, Wisconsin, _____

By the Commission:

Lynda L. Dorr
Secretary to the Commission